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ABSTRACT

This booklet examines the Qualified Zone Academy Bonds (QZABs) system for helping school districts carry out needed school renovations and repairs, discusses why QZABs are good ideas for school districts, highlights eligibility criteria, and provides basic funding information along with state allocations for 1998 through 2000. A school deputy superintendent and a financier provide their perspectives on using QZABs, followed by profiles of QZAB programs to illustrate how schools around the country are utilizing QZAB funds. Final sections list state contacts where information related to QZAB issues can be found; a list of cities, counties, or other areas that contain Empowerment Zones or Enterprise Communities; and responses to frequently asked questions. (GR)

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Fixing Our Schools Now!

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QUALIFIED ZONE ACADEMY BONDS:

A New Approach to Financing School Renovation and Repair

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Addendum

Please note for the State Allocations which begin on page 5, the amounts listed represent thousands of dollars.

Example, for Alabama:

State	1998	1999	2000
Alabama	6,128 (6,128,000)	7,015 (7,015,000)	6,612 (6,612,000)

FIXING OUR SCHOOLS NOW!

Qualified Zone Academy Bonds: Financing School Renovations and Repairs

U.S. Department of Education

Richard W. Riley
Secretary

Office of the Secretary
Susan Frost
Senior Advisor to the Secretary

Patricia Brennan-Gac
Special Assistant to the Secretary

April 2000

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"QZABs were designed for us. We are a district that is greatly lacking in resources, and we are eager to take opportunities such as these to improve education and learning environments for our students."

Dawn Goldstine of the Northampton County Public Schools, Virginia

THE SECRETARY OF EDUCATION
WASHINGTON, D.C. 20202

April 2000

Dear Colleague:

School districts throughout the country are discovering Qualified Zone Academy Bonds (QZABs). QZABs are a relatively new financing instrument under the tax code that schools can use to address infrastructure, health and safety, environmental, and energy efficiency issues associated with aging and overcrowded schools. To date, schools in at least 22 states are using QZABs and saving up to 50 percent of the cost of financing school improvement projects.

I encourage you to read through this booklet. Not only will you discover how your schools can use QZABs; you will learn how communities throughout the country are using QZABs to improve their schools.

I have visited schools where roofs are leaking, teachers are trying to teach in converted closets, and facilities have faulty electrical systems that do not allow adequate lighting, let alone modern computers. This is unacceptable. We know that schools are struggling to address these problems and that many schools simply cannot afford to make the needed repairs. Parents want their children to go to safe, healthy, and modern schools, and we are working to help schools achieve this goal.

QZABs use tax benefits to assist state and local educational agencies in financing the renovation or repair of public school facilities, purchasing equipment, developing curricula, and training personnel. Under this program, state educational agencies do not apply to a federal agency for funding. Instead, they authorize eligible school districts to use these bonds or have the state issue the bonds on behalf of eligible districts.

The QZAB program requires local educational agencies and eligible schools to establish "qualified zone academies" in partnership with local businesses. The qualified zone academies must use the bond proceeds to renovate school buildings, purchase equipment, develop curricula, or train teachers. Private sector partners are also required to support those activities.

I hope you will take the time to learn about the value of QZABs for your state. As always, I thank you for your work on behalf of America's children.

Yours sincerely,

Dick Riley

Richard W. Riley

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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QZABs: A Good Deal For School Districts

Basic Facts about Qualified Zone Academy Bonds

General Information

Qualified Zone Academy Bonds (QZABs) are a relatively new financing instrument that can be used to carry out much-needed school renovations and repairs. The federal government covers, on average, all of the interest on these bonds, thus enabling schools to save up to 50 percent of the costs of these construction projects. The interest payment is actually a tax credit, in lieu of cash, provided to financial institutions that hold the bonds.

Congress, in the last four years, has made a total of $1.2 billion in QZAB bonding authority available to all states. An additional $400 million will be allocated in 2001. Over 20 states have already distributed, or are in the processing of distributing, at least part of their allocations to their districts, and another five are actively planning implementation of the QZAB program.

Why QZABs Are a Good Deal for School Districts

To finance renovation and repair projects, school districts usually issue bonds to raise needed funds. Traditionally, states and local school districts issue bonds and the Internal Revenue Code exempts the bondholders from paying federal taxes on the interest they earn. Many investors consider this an incentive to purchase these bonds; therefore, school districts can sell these bonds at lower interest rates than standard corporate bonds. This tax-code provision allows the district to save about 20 percent of the interest costs in the current market. However, the district must pay the principal and the interest over the life of the bond.

Under the QZAB program, the federal government provides bondholders with a tax credit in lieu of a cash interest payments. The school district or other issuer is then, in general, only responsible for repaying the amount borrowed. This is a substantial benefit because interest payments can equal up to 50 percent of the economic cost of a bond. A QZAB is a better value for the district because, under these tax-credit bonds, the federal government pays, on average, all of the interest, whereas, under tax-exempt bonds, the school district typically recoups only 20 percent of the interest payments.

Use of QZABs

QZABs can be used for renovation and repair projects, but not for new construction. If allowed by state law, schools may also use QZAB proceeds to invest in equipment and up-to-date technology, develop challenging curriculum, and train quality teachers. Schools can address specific needs associated with aging and overcrowded schools such as infrastructure, technology, health and safety, and environmental and energy efficiency issues.

In this manner, QZAB financing works towards meeting various education goals, including creating digital opportunities for all, establishing schools as the centers of communities, and encouraging private-sector contributions to public education.

Eligibility Criteria

The QZAB program was designed to help schools that have the most need for financial assistance. Eligibility requirements are applied on a school-by-school basis. To be eligible to use a QZAB, a public school must meet one of two criteria:

1) The school is located in an Empowerment Zone or Enterprise Community; or
2) There is a reasonable expectation that at least 35 percent of the school's students will be eligible for the free or reduced-price lunch program.

The school is also required to cooperate with businesses to expand learning opportunities and provide students with skills needed for the rigors of college and the increasingly complex workplace. The school is required to receive donations from private entities worth at least 10 percent of the value of the money borrowed. These donations can take such forms as cash, goods, services, and internships or field trips that provide educational opportunities to students. In this way, QZABs help modernize school buildings and foster partnerships between schools, businesses, and communities.

Funding Information

The QZAB program was established under Section 226 of the Taxpayer's Relief Act of 1997 and, as amended in 1999, appears in Section 1397E of the Internal Revenue Service Code. Each year, states have received a specific amount of QZAB authority based on the number of individuals within each state who have incomes below the poverty level. A list of QZAB allocations to each state follows this section. School districts apply to their state for bonding authority.

When QZABs were first created, Congress allocated $400 million for 1998 and $400 million for 1999. Subsequently, Congress added two additional years' allocations. The 1999 amendments provided an additional $400 million a year for 2000 and 2001 and imposed deadlines for states to issue their allocations.

Amount	Year Allocated	Deadline for QZAB Issuance - December 31
$400M	1998	2001
$400M	1999	2002
$400M	2000	2002
$400M	2001	2003

Building on the Benefits of QZABs

Recognizing the tremendous benefits that QZABs offer to school districts throughout the country, the Administration has proposed expanding this program to provide $2.4 billion in additional bonding authority over a two-year period. This proposal also seeks to allow QZABs to be used for new construction in addition to the current program which is limited to renovations and repairs.

Many schools are now facing increased enrollments that require additions to their current buildings or entire new buildings. Deferred maintenance combined with aging school facilities as well as construction for new buildings require financing that is beyond the scope of QZABs. To help schools, districts, and communities address these issues, the Administration has also proposed $22.4 billion in new tax-credit bonds over a two-year period to help build and modernize up to 6,000 schools.

The Administration recognizes that some school districts are unable to finance renovations and repairs through the use of bonds. For those school districts that have difficulty financing minor repairs and emergency projects, the Administration's proposal also include $1.3 billion in interest-free loans and grants. Over five years, this program could leverage $33.5 billion, enough to help up to 25,000 schools with urgently needed repairs and smaller renovations.

For more information on the status of the President's two new proposals, please visit the Department's Web site at http://www.ed.gov/inits/construction .

Qualified Zone Academy Bonds:
State Allocations
For 1998, 1999, and 2000

State	1998	1999	2000
Alabama	6,128	7,015	6,612
Alaska	556	591	651
Arizona	10,094	8,408	8,816
Arkansas	4,625	5,433	4,093
California	56,360	57,589	55,570
Colorado	4,243	3,376	3,941
Connecticut	4,037	2,975	3,366
Delaware	649	760	869
District of Columbia	1,339	1,192	1,238
Florida	20,981	21,689	20,879
Georgia	11,299	11,699	11,227
Hawaii	1,463	1,730	1,422
Idaho	1,442	1,931	1,792
Illinois	14,718	14,231	13,398
Indiana	4,408	5,433	5,939
Iowa	2,874	2,848	2,790
Kansas	2,956	2,637	2,714
Kentucky	6,777	6,572	5,657
Louisiana	8,992	7,290	8,914
Maine	1,390	1,308	1,422
Maryland	5,376	4,452	3,898
Massachusetts	6,406	7,722	5,733

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State	1998	1999	2000
Michigan	11,000	10,613	11,911
Minnesota	4,717	4,821	5,407
Mississippi	5,922	4,800	5,277
Missouri	5,150	6,614	5,765
Montana	1,596	1,466	1,661
Nebraska	1,741	1,720	2,291
Nevada	1,370	2,004	2,117
New Hampshire	752	1,150	1,292
New Jersey	7,478	7,775	7,524
New Mexico	4,861	4,083	4,028
New York	31,497	31,426	33,311
North Carolina	9,115	8,851	11,281
North Dakota	711	918	1,053
Ohio	14,667	12,986	13,605
Oklahoma	5,727	4,810	4,973
Oregon	3,934	4,030	5,461
Pennsylvania	14,152	14,104	14,528
Rhode Island	1,071	1,266	1,216
South Carolina	4,964	5,275	5,722
South Dakota	845	1,234	836
Tennessee	9,043	8,345	8,132
Texas	32,753	34,781	32,508
Utah	1,576	1,952	2,063
Vermont	762	570	630
Virginia	8,188	9,051	6,395

State	1998	1999	2000
Washington	6,860	5,581	5,559
West Virginia	3,327	3,017	3,388
Wisconsin	4,738	4,452	4,875
Wyoming	597	696	554
American Samoa	350	367	389
Guam	227	217	229
Northern Marianas	268	337	360
Puerto Rico	22,659	23,484	24,378
Virgin Islands	268	323	337
Total U.S.	400,000	400,000	400,000

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Designing a Dream

A School Deputy Superintendent's Perspective on Using QZABs

In September1998, the Clovis and Fresno United School Districts of Fresno County, California jointly issued California's first QZAB. Terry Bradley, deputy superintendent of Clovis Unified School District, shares his thoughts on the QZAB program:

"When we first heard about the Qualified Zone Academy Bond program, our initial reaction was less than enthusiastic. We mistakenly believed that once the Treasury Department, the Internal Revenue Service, and the U.S. Department of Education developed implementation regulations, it would be very time consuming and difficult to qualify for these zero interest bonds. **How wrong we were.**

After the proposed regulations were initially reviewed by our staff, financial consultant, and bond counsel, everyone thought we were missing something because the regulations to qualify for these bonds appeared to be much too userfriendly.

The California Department of Education immediately recognized the financial benefits of the QZAB program and developed a short application document for school districts.

On September 30, 1998 (nine months after the adoption of the QZAB program), our school district combined with the Fresno Unified School District successfully issued the first QZAB in California. The funds from this bond issue are being used to finance the renovation of an existing warehouse/manufacturing plant into our Center for Advanced Research and Technology (CART). This state-of-the-art technology high school will house 1,600 students from our school districts when it opens in September 2000.

We found the QZAB program to be one of the most user friendly federal programs for the following reasons:

- decisions regarding the use of funds are determined at the local level;
- federal and state requirements are minimal;
- no additional federal appropriation is required; and
- significant savings are realized by local school districts.

Meeting the 10 percent contribution requirement was a very exciting and easy task for our two school districts. After explaining the program to members of our local private sector, we received a tremendous response both prior to receiving authorization and subsequent to beginning construction. We are still receiving significant private contributions today.

With the renovation of our facility almost completed, all parties in our two school districts are convinced that our vision for this technology high school would not have been realized without the assistance provided through the QZAB program. We were able to reduce our financing costs by close to $13 million, which allowed us to develop a program that will be second to none. Everyone (students, teachers, business, taxpayers) in our two communities is benefiting because of our ability to use QZAB funds. Our newly renovated facility is a dream come true, and it would not have been possible without the savings we realized by using the QZAB program."

Fostering A Dream

A Financier's Perspective on Using QZABs

Pomona Unified School District of California issued a $12 million QZAB to benefit a Technology Academy, a Hospitality Academy, a Health Education Academy, and a Professional Teaching Academy. Stone & Youngberg LLC served as the placement agent for the district. Jeffrey Baratta of Stone & Youngberg offers a financier's thoughts on the QZAB program:

"Facility funding is a major issue throughout the nation today. The problem facing districts is the ability to provide adequate building space for enhanced educational opportunities. Many school districts cannot provide these programs because of a lack of facility dollars. The Qualified Zone Academy Bond program has proved to be very beneficial for many different types of school districts. Districts ranging in size from the largest to the smallest have benefited both financially and through curriculum enhancement by utilizing funds through the QZAB program.

If school districts had to borrow money through traditional methods of financing, they would be required to repay almost double what they borrowed. In a typical $12 million financing project, a school would repay approximately $23 million in principal and interest to the lenders. In November 1999, the Pomona Unified School District borrowed $12 million under the QZAB program. Pomona USD repaid its loan by depositing $5.4 million of available district funds into an investment agreement. The length of the agreement is set for the same period as the loan. At maturity, the agreement will have a value of $12 million and will be used for the repayment of the loan. During the loan period, the lender will receive annual federal taxcredits in lieu of traditional interest payment. This structure represents savings to the district of approximately $17.6 million.

The savings from the QZAB program can be viewed in two ways:

1) The district can afford a program that was once unattainable; or
2) The district can fund other programs and can further enhance educational opportunities for the children.

The QZAB program started in January 1998. Even though it is fairly new to the finance community, it is being utilized more frequently than expected. Over the last year we have seen more lenders become open to this type of structure. Further expansion of this program will increase lender interest and decrease borrowing costs. While the QZAB program is not for every district, it does offer viable and effective alternatives for many."

Making a Dream Come True

Profiles of QZAB Programs in School Districts

QZAB programs in the following districts are highlighted in this section in order to illustrate how schools around the country are utilizing QZAB funds. Sources for the profiles are local superintendents and other individuals from the school districts.

Arizona
Show Low District

California
Baldwin Park Unified School District
Clovis Unified School District/ Fresno Unified School District
Pomona Unified School District

Connecticut
New Haven Public Schools

Florida
Miami-Dade County Public Schools

Illinois
Chicago Public Schools
West Aurora Public Schools

Indiana
School City of East Chicago

Kansas
Columbus School District
Fort Scott School District

Kentucky
Henderson County Schools

Mississippi
Nettleton School District

Missouri
Doniphan School District
Houston School District

Nebraska
Plattsmouth Community School District

North Dakota
Bisbee-Egeland School District
Munich School District

Ohio
Cleveland School District

Oklahoma
Chandler Public Schools
Elgin Public Schools

Oregon
Blachly School District

Pennsylvania
Keystone Central School District

Tennessee
Memphis City Schools

Texas
Kaufman Independent School District
Ysleta Independent School District

Virginia
Northampton City Public Schools

Washington
Seattle Schools

Wisconsin
Milwaukee Public Schools

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ARIZONA

Show Low School District

The Show Low School District is located in rural Arizona in Navajo County. Seven schools serve approximately 2,500 students. Approximately 40 percent of the students are eligible for free or reduced-price lunch.

Show Low is currently applying for a $590,000 QZAB. The funds would benefit two of the older schools in the school district. One of these schools is over 50 years old and needs extensive upgrading and remodeling in all areas. Among other repairs, both schools would receive new roofs. Show Low would also upgrade technology district-wide with purchases of new computers. The school's private partner is J.L. Hammett, a school supply retailer.

CALIFORNIA

Baldwin Park Unified School District

The Baldwin Park Unified School District is located in Los Angeles County, 20 miles from Los Angeles. The region is very urban, and 74.1 percent of its 17,000 students qualify for free or reduced-price lunch.

The district has requested $12 million under the QZAB program to establish two Computer Technology Academies at Sierra Vista and Baldwin Park High Schools. The academies would focus on vocational technology, specifically through the "A+ Service Technician" and the "Network+ Technician" certification programs. These two programs provide students with skills necessary to become certified as service and network technicians based on a worldwide standard of competency. Students will have the opportunity to obtain industry-recognized certifications upon graduation that prepare them for ongoing technology education and careers. Teachers would receive ongoing professional technology training with the most up-to-date equipment available. All high school students in the Baldwin Park district will be able to enroll in academy classes.

The bond itself will be used to modernize the structure and technology of the two sites in order to support the programs. The schools' primary partner is Intel, which has donated over $1.2 million for teacher training, development, equipment, materials and consulting services. JES & Co., a non-profit education organization, will provide the academies with curriculum, materials, and teacher training. The district expects the academies to open in the fall of 2000.

Clovis Unified School District/Fresno Unified School District

The Clovis and Fresno Unified School Districts are located in urban areas of Fresno County. In the two districts together, there are 110,000 students in 120 schools. Approximately 45 to 50 percent of the students qualify for free or reduced-price lunch.

The districts jointly applied for $12 million under the QZAB program. Funds are being used to rehabilitate an existing warehouse/manufacturing plant to establish the 11 technological academies of the Center for Advanced Research and Technology (CART). The technological laboratory suites will be available to more than 1,600 students from the two school districts and will provide relevant, specialized experiences in agriculture, biomedicine, chemistry, design/engineering, environment, financing, information, logistics/spatial, manufacturing, and telecommunications.

The school's partners are Microsoft (total contribution: $1,200,000), Grundfos Pump Corporation (total contribution: $563,272), Johanson Transportation (total contribution: $84,000), and Richard Lake CPA (total contribution: $60,000). These contributions from the business community, totaling $2 million, are well above the required $1,200,000. The Foundation for Clovis Schools pledged an additional $100,700 for the CART project.

In using QZABs, each district will save more than $6 million in interest payments.

Pomona Unified School District

Pomona Unified School District serves 32,701 students in 38 schools. The district has a high enrollment growth rate. In addition, 72.5 percent of the students qualify for free or reduced-price lunch.

Pomona issued $12 million in QZABs for the implementation of two educational programs in four academies. The programs are located in The Village at Indian Hill, which is within the Pueblo Elementary School site. The majority of the funds will be used to renovate two existing commercial facilities (a former mall) in order to accommodate 60 classroom spaces, a multipurpose room, a technology/multimedia production center, a commercial kitchen facility, a health academy clinical training center, and a teacher training center.

The first program includes a Technology Academy and a Hospitality Academy. These academies are known as the Business & Education, Standards in Technology and Tourism Academy Consortium (BESTT ACT). The curricula of both Academies are designed for pre-kindergarten to 12th grade. The BESTT ACT program began in the spring of 1997 to support and organize an up-to-date approach to hospitality- and technology-centered core curriculum development within the district. The existing core curriculum in the district has been restructured and teachers are receiving help to enrich curricula.

The second program funded through QZABs is Health, Education, and Professional Teaching (HEART), which will comprise a Teaching Academy and a Health Academy. The curriculum of each academy will be geared toward professional development in the respective area. The academies will be technologically based, including the resources of field experts via the Internet and teleconferencing, and will be connected on the district's fiber optic wide area network. Not only will students, teachers, and administrators be connected to each other, but they will also be able to access their individual portfolios via the Internet from anywhere in the world. The HEART curriculum will be available for implementation throughout the district.

Private partners in the QZAB program are FAIRPLEX/Los Angeles County Fair Association, an association of businesses such as Sheraton Hotels and Lewis Homes; the Pomona Valley Educational Foundation, and the Jet Propulsion Laboratory/National Aeronautical Space Administration (JPL/NASA).

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CONNECTICUT

New Haven Public Schools

New Haven Public Schools enrolls 20,000 students. The schools of the district are located in an urban area, and a total of 70 percent of the students are participating in the free or reduced-price lunch program.

The QZAB program in New Haven involves six schools, each of which will receive $1 million in bonding proceeds. The program will substantially renovate the school facilities in order to enhance day-to-day operations, as well as put forth a large effort to bolster the literacy program in kindergarten to eighth grade. Specific projects under the literacy program are reading intervention, improved library media services, and the use of computers in the instruction of reading.

Private partners of the New Haven schools include Coca-Cola Enterprise, Inc. of New England, the New Haven Club of the National Association of Negro Business and Professional Women's Clubs, the SBC Foundation, Southern Connecticut State University School of Education, the VA Connecticut Healthcare System, and Yale University. Contributions from these partners are diverse and include funds, books, computers, software, field trips, internships, mentoring programs, and professional development.

FLORIDA

Miami-Dade County Public Schools

The Miami-Dade County Public Schools district encompasses the cities of Miami and Miami Beach and other communities within Dade County. The district's student population is 352,000, making it the nation's fourth largest school district. It is predominantly urban, and 65 percent of the total student population and 75 percent of the elementary student population is eligible for free or reduced-price lunch. An Empowerment Zone is located within the district.

The district has $24.5 million in QZAB bonding authority. Renovations using QZAB funds will concentrate on schools in the Empowerment Zone, particularly schools with high degrees of community support. A total of 20 schools will benefit from QZAB funds. Eight schools will receive capital upgrades. Twenty schools will receive technology upgrades, which will include upgraded wiring, computers, and software, as well as teacher training. The total monetary amount for technology is $10.8 million, and a total of 40 schools will be targeted.

Illinois

Chicago Public Schools

The Chicago Public Schools district has 591 schools serving 491,000 students. A total of 84.5 percent of students come from low-income families. The Chicago QZABs support two programs within the district.

Chicago Public Schools issued Illinois' first QZAB in 1998 to develop the Chicago Military Academy at Bronzeville. The $14 million bond was used to renovate the school to create the nation's first public military academy. Among private partners, Ameritech contributed the most, a total of $1 million. Other partners included IBM, Unisys, Dell, EMC, Platinum Technologies, Educational Technology Solutions, and Beggs-Heidt. Contributions included computer installation, system and student information systems, and cash donations for textbooks and training.

Another $12 million QZAB will fund significant renovations to the facilities of South Side College Preparatory Academy, a high school with a college preparatory focus. The QZAB money also will be used to create and maintain a technology rich environment within the school. Private partners include United Airlines, John Nuveen & Company, IMC Automation Inc, and BeggsHeldt Enterprise Consulting. The majority of the contributions from Chicago's businesses will be funds used for textbooks, curriculum development, teacher training, and hiring a full-time technology administrator at South Side. Businesses also will provide mentoring and training opportunities as well as resources for the school.

West Aurora Public School District

The West Aurora Public School District comprises 9,800 students who attend 17 schools. The district is using a $996,000 QZAB to renovate Abraham Lincoln Elementary School, which serves students in kindergarten to fifth grade. Lincoln also houses after-school and summer programs for youth of the surrounding community. The district is located in an urban area, and 70 percent of the students qualify for free or reduced-price lunch.

The school is 100 years old and the facilities do not reflect changes in student needs and education programs. The goal of the QZAB project is to make the facility more student-oriented in order to meet the needs of Lincoln's 250 students. The school's entryway will be renovated and classrooms will receive electrical, mechanical, wiring, floor, and paint upgrades. Technology also will be upgraded through the QZAB program.

Lincoln has many partners for its QZAB program. Hewlett Packard will donate computers, educational administrative software, and a five-station network server. Perkins & Will Architects will work with school officials on a program plan to design facilities around the Lincoln's educational program. Lincoln Elementary also has several local entities as partners whose contributions include tutoring services and homework clubs.

INDIANA

School City of East Chicago

The School City of East Chicago is comprised of 6,000 students who attend 10 schools. The district is located in the inner city. QZAB proceeds will be used at Block Junior High School, which serves 431 students. Approximately 76 percent of these students are eligible for free or reduced-price lunch. Block is located in an Empowerment Zone.

East Chicago has issued a $2 million QZAB on behalf of Block. The funds will serve two purposes. The first is to replace the roof. The second is to modernize the infrastructure of the school to support technology. The school is 34 years old. It currently has one computer lab, but individual classrooms cannot support the use of computers. Funds will be used to improve electrical wiring and increase the electrical power at the school.

Block Junior High's partners are the Twin City Educational Foundation and the East Chicago Community Development Foundation. Each organization will provide $100,000 for the purchase of computers and printers and for training teachers in the use of technology. The computers will be placed in a new computer lab as well as individual classrooms.

KANSAS

Columbus School District

The Columbus School District is a rural district comprising 1,400 students. The region has a limited amount of industry, and higher rates of poverty and unemployment than the state averages. Approximately 44 percent of the students are eligible for free or reduced-price lunch. There are seven school buildings in the district, most of which were built around 1960. The oldest is about 60 years old.

Columbus received $1 million in bonding authority through the QZAB program. Half of the money is being used to upgrade and enhance technology throughout the entire district. The remaining funds are being used for capital improvements such as renovations to roofs and windows. For the first time, a security system is being installed throughout the district.

The private partner for the QZAB program is the Southeastern Campus Regional Service Center at Greenbush, whose contributions include in-service activities and support.

Fort Scott School District

The Fort Scott School District is a rural district comprising 2,200 students in four schools, including one high school, one middle school, and two elementary schools. The rate of students eligible for free or reduced-price lunch is 43 percent.

Fort Scott is using its $660,000 in QZAB funds to enhance technology in its schools. The majority of the funds will be used to purchase 175 new computers as well as printers and other hardware. The goal is for every certified teacher to have a computer in his or her classroom. Computers will be used for both instructional and management purposes. An instructional software program called the A+ program is being implemented district-wide. QZAB funds will also be used for teacher technology training.

Fort Scott Community College is the private partner for the QZAB program, and it is contributing facilities for the teacher training.

KENTUCKY

Henderson County Schools

The district of Henderson County Schools enrolls 7,500 students. The county has one high school that serves 2,100 students in 10th through 12th grades. The percentage of students who are eligible for free or reduced-price lunch is 35 to 40 percent.

Henderson has applied for $4 million in QZAB funds. The money would be used as part of a larger project that is creating three schools within the high school. Each school would serve 700 students. This concept combines the best aspects of a small school and a large school. With smaller class sizes, each student would receive a greater amount of individual attention, and school safety would also be enhanced. Students would continue to be able to take such classes as upper level sciences, which might not be offered at separate small schools. The project also would expand the high school to serve students in 9th grade. The QZAB funds would be used for needed renovations to the high school for this project.

The school's private partner is the Preston Foundation, which is donating funds for the project.

Mississippi

Nettleton School District

The Nettleton School District is a rural district comprising only Nettleton School, which serves students in kindergarten through 12th grade. A total of 48 percent of the students are eligible for free or reduced-price lunch.

Nettleton is currently in the QZAB application process. The district plans to use QZABs to renovate buildings, replace air conditioning units, and upgrade technology by replacing old computers and obsolete software. The improvements would primarily affect math, science, and computer programs.

Nettleton School's private partner is the Tennessee Valley Authority (TVA) in Tupelo, Mississippi. TVA will contribute equipment, computers, and tables, as well as workshops and technical assistance so teachers will be properly trained to use technology in their teaching.

MISSOURI

Doniphan School District

The Doniphan School District is located in a rural area where 67 percent of the students qualify for free or reduced-price lunch. The district serves a total of 1,622 students. There are four schools: one elementary, one middle, one secondary, and one vocational school. The average age of the schools is 20 years.

The district's QZAB application has been approved by the state, and the bond issue is currently on the ballot before voters of the district. The $558,000 QZAB would be used primarily at the elementary school. The program focuses on technology, and the district would utilize the money to ensure that computers and Internet access exists in every classroom. Currently, access exists only in the libraries and in a small number of classrooms in each school. Wiring and infrastructure would be improved in order to support the technology upgrades. The QZAB money also would fund teacher training for the technology.

Doniphan's private partner is Shelton Business Machines, a company from which Doniphan has purchased hardware and software in the past. The company will provide consultant services and make the rest of its contribution by waiving installation and set-up fees.

Houston School District

The Houston School District is a predominantly rural school district that serves approximately 1,100 students. Some 57 percent of the students are eligible for free or reduced-price lunch. Though the district's school buildings have significant need for renovations, the district does boast above-average community support.

Houston's $1 million QZAB is being used to renovate and equip the building for the primary school (K-3). The renovations are part of a larger project that will utilize another bond issue to join the K-3 school with the fourth and fifth grade school, and these renovations will prepare the building for the merger. Repairs to facilities include fixing classrooms and improving accessibility. Funds also will be used to equip classrooms with more desks, tables, and improved heating and air conditioning units. Wiring and infrastructure will be improved in order to facilitate access to the Internet.

The school's partner is Computer Junction, a vending company that will provide the school with services such as technology planning over the next 10 years. The company may also donate computers.

NEBRASKA

Plattsmouth Community School District

The Plattsmouth Community School District serves 1,700 students in one elementary school, one middle school, and one high school. It is located just south of Omaha.

The district is currently finalizing a $625,000 QZAB that will be used to renovate Plattsmouth Elementary School and Plattsmouth Middle School by improving the heating/ventilation/air conditioning units in the two schools. Funds also will be used to upgrade existing technology, particularly computer hardware, and kitchen equipment.

The schools' private partner is School Specialty, a retailer of school supplies. It is contributing services for students in the two schools. Plattsmouth Elementary and Middle Schools qualify for the QZAB program through the criteria of percentage of students eligible for free or reduced-price lunch.

North Dakota

Bisbee-Egeland School District

Bisbee-Egeland School District is a rural district encompassing the towns of Bisbee and Egeland. The total number of students in the district is 125. Of these, 50 percent are eligible for free or reduced-price lunch. There are two schools, one elementary and one secondary. The high school was built approximately 40 years ago.

Bisbee-Egeland received $55,000 in bonding authority. The money is being utilized for general renovations of facilities, including repairs to the sidewalk and an updated smoke detection system required to meet regulations.

Munich School District

Munich School District serves 160 students in a rural agricultural community. All of the students attend the same school, and half are eligible for free or reduced-price lunch.

Munich is currently in the process of finalizing its $100,000 QZAB bond. Funds will be used to improve safety and accessibility. Funds will also be utilized to upgrade technology. The district will purchase computers and technology training services for teachers. In addition, the district will implement distance learning through the Internet. The school's teachers' group is the private partner, and they will provide in-kind service.

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Ohio

Cleveland Municipal School District

The Cleveland Municipal School District is an urban district serving 77,000 students. The school system has a universal-feeding program, and 89.8 percent of the students qualify for free or reduced-priced lunch. There are 120 schools in the district, and the average age of their school facilities 49 years. The need for school building renovations in Cleveland exceeds $1 billion.

Cleveland has applied for $10 million under the QZAB program, and plans to use the funds for an Arts Academy. The Cleveland School of the Arts is a magnet high school for the arts, and Newton Baker is the elementary feeder school for the secondary school. The district conducted a physical need assessment of the facilities, which are on the same site, and the QZAB funds would be used to renovate these facilities. The structure of the building is aging quickly as it has not been adequately maintained over the years. The school would repair roofs, windows, HVAC (heating/ventilation/air conditioning units), and electrical structures. Music rooms and computer rooms also would be renovated to better serve students. Cleveland's QZAB would significantly fund the renovations to the art schools.

The school's partner is a non-profit organization called Friends of the Cleveland School of Arts. The organization has supported the school in the past and is contributing cash to the renovation project.

OKLAHOMA

Chandler Public Schools

The Chandler Public Schools district has 1,250 students in four schools housed within six school buildings. The district is located in a rural region that has light industry. Though a spectrum of socioeconomic conditions exists within the district, the 48 percent of the students qualify for free or reduced-price lunch.

Chandler's $875,000 QZAB was issued in the fall of 1998 and was used for Eastside Elementary School. Renovations included a new roof and new heating/air conditioning units. Many private entities supported Eastside in its efforts, and provided services such as tutoring programs.

Elgin Public Schools

The Elgin Public Schools district is composed of one elementary school, one middle school, and one high school. About 1,400 students attend these three schools, and 40 percent of these students are eligible for free or reduced-price lunch.

Elgin received $500,000 in QZAB money, which is being utilized to fund equipment purchases of doors, a rolling shutter, wooden floor, basketball poles, seating, and a heating/air conditioning unit for the shared gymnasium.

Private partners include Hurst Construction, the Bank of Elgin, and Pepsi-Cola. Hurst is contributing construction management and equipment for the renovation of a running track. The Bank of Elgin and Pepsi-Cola are contributing equipment and funding.

OREGON

Blachly School District

The Blachly School District is comprised of four schools serving a total of 600 students. It is located in a rural area, and many students come from single-parent families with less-than-average incomes. The percentage of students eligible for free or reduced-price lunch is 73 percent. Blachly has a reputation of high achievement and is known for great parental support. Approximate school building age is 35 years for the elementary school, 55 years for the middle school, and 65 years for the high school.

The district has applied for a 10-year $295,000 bond and is planning to renovate school facilities to accommodate the increased opportunities available to students. Blachly also would implement a long-distance learning program using QZAB funds. Pepsi-Cola would serve as the private partner and will facilitate a school-to-work program.

PENNSYLVANIA

Keystone Central School District

The Keystone Central School District is a rural school district located in central Pennsylvania. The district has 14 school buildings.

Keystone has received $15 million in bonding authority. The majority of the funds will be used to implement an Integrated-Academic-Technical Academy, which will integrate core academic courses with high-tech career instruction for students of all ages. The program's four levels include:

1. Elementary: "MicroSociety." This curriculum will incorporate new Pennsylvania academic standards into a curriculum similar to a miniature society in all of the nine elementary schools.
2. Middle: "Pre-Pathway Exploration." This curriculum will expand on the MicroSociety concept to include such activities as job shadowing, mentoring, and career exploring.
3. Secondary: "Integrated Pathway." This level will have five individual career-oriented curricula that will provide students with academic, vocational/technological, and community-living skills vital.
4. Postsecondary: "Technical Training." The Academy will partner with the local state university to offer lifelong learning for all.

Specifically, QZAB funds will be used for much-needed capital renovations to school buildings as well as equipment for MicroSociety, Integrated Pathways, and Technical Training. In addition, QZABs will fund professional development for the MicroSociety and Integrated Pathways curriculums.

The Academy has a number of private partners, including International Paper and many local businesses. The majority of the contributions from these private entities are in the form of seminars, school-to-work programs, and other services specifically for students. Vocational equipment also has been donated, as well as an area of land to be used by vocational forestry students.

TENNESSEE

Memphis City Schools

The Memphis City Schools district is comprised of 118,000 students who attend 165 schools. The total percentage of students in the district who qualify for free or reduced-price lunch is 79 percent. The percentages in the five schools using funds from the QZAB program are near the district percentage.

Memphis allocated a total of $2.5 million in QZAB funds to five high schools in the district in order to enhance career and technology programs. The specific amounts are: Carver, $350,000; East, $741,000; Frayser, $538,000; Manasas, $414,000; and South Side, $456,000. These five schools are located in Empowerment Zones. Technical courses in each school will be enhanced through the purchase of computer and technology equipment for the classrooms. The classrooms themselves will also need renovation to accommodate the technological upgrades.

Memphis has a relationship with the city's chamber of commerce, and more than 10 private entities are partnering with the schools for the QZAB program. Contributions from these entities are in the form of teacher training.

TEXAS

Kaufman Independent School District

Kaufman Independent School District is a mid-size, low-wealth district on the rural eastern edge of the Dallas-Fort Worth metro area. It has a diverse student population. Of its 3,000 students, 40 percent qualify for free or reduced-price lunch. There are six schools in the district.

Kaufman allocated $2 million in QZAB funds to Monday Primary School (pre-K to first grade) and Phillips Elementary Schools (second to fourth grades). Funds will be used for renovation of school facilities such as floors, carpets, and kitchen equipment. The primary school is over 70 years old, and the elementary school is over 50 years old. The district will also use QZAB funds to upgrade technology through computer purchases and networking updates. Kaufman is considering installing a wireless network throughout the district.

The schools' partners are several local businesses. They have contributed services for students and teachers such as an information session about a specific career.

Ysleta Independent School District

Ysleta Independent School District serves 48,000 students in 57 schools in the El Paso area. It is the eighth largest school district in Texas. The district is located in an Empowerment Zone. Some 65-70 percent of the students qualify for free or reduced-price lunch.

Ysleta issued QZABs for two projects. The first is the enhancement of technology in district libraries. Renovations infrastructure upgrades to better incorporate technology. Funding for this project totals $4 million in QZABs. Specific schools involved in the project are Sageland Elementary School, Eastwood Heights Elementary School, Edgemeer Elementary School, and Tierra Del Sol Elementary School.

The second program funded by QZAB proceeds is a part of a larger initiative to provide a laptop for each student in the district. Though QZABs will not fully fund this initiative, the $8 million will greatly enhance the effort.

Several local businesses are participating in the program as the partners. Contributions include monetary donations, consulting services, volunteer support, school supplies, and training support.

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VIRGINIA

Northampton County Public Schools

The district is a rural Enterprise Community that is located in one of the poorest areas in Virginia. The district is comprised of one high school, one middle school, and two elementary schools. Seventy percent of the students are eligible for free or reduced-price lunch, and 63 percent live below the poverty level. Many families in the district lack water and electricity. Schools act as centers of the community, providing such services as dental services and daily meals for eligible students. Schools in the district are strongly supported by parents and the community. Despite the circumstances of the community, the district boasts three National Blue Ribbon Schools of Excellence.

Northampton received $2.1 million in bond authorization in the fall of 1999. Renovations in the district have been geared toward making schools safer and providing healthier learning environments. The high school is currently receiving improved piping for its heating and air conditioning unit as well as a new roof. Electrical wiring in all of the schools will be upgraded in order to better support improvements in technology. Windows also will be replaced with more energy efficient materials.

Private partners include WHRO Public Broadcasting Station, which has donated educational television and technological resources, and the Arts Council of the Eastern Shore, which has donated staff development of art teachers and in-school art programs and event tickets for students.

WASHINGTON

Seattle Schools

The Seattle Schools district is an urban district serving more than 47,000 students in 100 schools. The percentage of students who qualify for free or reduced-price lunch is approximately 41 percent.

Seattle Schools currently has two authorizations of QZABs totaling $7.8 million. The district is in the process of applying for another authorization. In order to improve student ability and to create digital opportunity for all, Seattle is upgrading technology within the district. Improvements include building renovations, wiring installations, equipment purchases, and teacher training. QZAB funds are specifically being used to purchase hardware and software as well as to train teachers in the use of technology. Seattle hopes to have at least one computer in every classroom. Prior to the launch of the technology initiative, there were 10 to 15 students per computer. The target for the initiative is to reduce this ratio to two or three student for every computer. Seattle's long-term intention is to use computers and networks for instructional use through a distance learning program.

The schools of the district have partnerships with many private entities. The Alliance for Education serves as the primary partner by eliciting contributions from other private entities and also providing the district with teacher technology training. Other partners include Microsoft, the local chapter of the Rotary Club, alumni associations of district high schools, and the Gates Foundation. Contributions by these partners include equipment but largely take the form of cash.

WISCONSIN

Milwaukee Public Schools

The Milwaukee Public Schools district is using QZABs to update the Milwaukee Trade and Technical High School. A total of 1,920 students throughout the district will be able to attend the school.

The district was authorized to issue $4.7 million in 1998 and $3.9 million in 1999, for a total of $8.6 million. The existing facility is the Milwaukee Technical High School, and it will be transformed to the Lynde and Harry Bradley Technical and Trade School. The curriculum will be modernized, and the facilities and the equipment will be renovated to reflect the curriculum.

The school's partner in this effort is the philanthropic donation of Jane Bradley Pettit, who has donated $20 million for the new technical high school.

Suggested State Contacts

For information about issues related to QZABs, contact the following individuals in your state education agency.

Alabama
State Department of Education — http://www.alsde.edu
Gordon Persons Office Building
P.O. Box 302101
Montgomery, AL 36130-2101

Joseph Morton, Deputy Superintendent	(334) 242-8154
Jean Conner, Financial Management & Compliance	(334) 242-8225
Bob Boshell, School Facilities	(334) 242-9719
Vera Guettler, State Department Fiscal Operations	(334) 242-9774

Alaska
Department of Education & Early Development — http://www.eed.state.ak.us
801 West 10th Street
Suite 200
Juneau, Alaska 99801-1894

Eddy Jeans, Finance & School Facilities	(907) 465-8679

Arizona
State Department of Education — http://ade.state.az.us
1535 West Jefferson
Phoenix, Arizona 85007

Kathryn Kilroy , School Finance	(602) 542-8238

Arkansas
State Department of Education — http://arkedu.state.ar.us
Four Capitol Mall
Little Rock, Arkansas 72201-1071

Woodrow Cummins, Jr., Deputy Director of General Education	(501) 682-4205
Richard McDowell, Local Fiscal Service	(501) 682-4258
Kent Douglas, School Loans & Bonds	(501) 682-4489

California
State Department of Education — http://goldmine.cde.ca.gov
721 Capitol Mall
Sacramento, California 95814

B. Terri Burns, Deputy Superintendent of External Affairs	(916) 657-2280
Susie Lange, Finance, Management, & Technology	(916) 657-5474
Dave Walrath, Federal School Infrastructure Coalition	(916) 441-3300

Colorado — http://www.cde.state.co.us
State Department of Education
201 East Colfax Avenue
Denver, Colorado 8023-1799

Byron Pendely, Public School Finance	(303) 866-6845

Connecticut
State Department of Education — http://www.po.state.ct.us
1665 Capitol Avenue
Hartford, Connecticut 06106-1630

John Coroso, Finance & Administrative Services	(860) 566-4879
Leslie Averna, School Improvement	(860) 566-4185
Robert Brewer, Grants Management	(860) 566-8201

Delaware
State Department of Education — http://www.doe.state.de.us
P.O. Box 1402
Townsend Building Suite 2
Federal & Loockerman Streets
Dover, Delaware 19903-1402

Nancy Wilson, Acting Associate Secretary of Curriculum & Instructional Improvement	(302) 739-3772
Mark Dufendach, Financial Management	(302) 739-4662
Ronald Houston, School Improvement	(302) 739-2767

District of Columbia
District of Columbia Public Schools — http://www.k12dc.us
825 North Capitol Street, NE
Washington, DC 20002-4232

Kifah Jayyousi, Facilities	(202) 576-6657
Donald Rickford, Finance	(202) 442-5300

Florida

State Department of Education — http://www.firn.edu/doe
Capitol Building, Room PL 08
Tallahassee, Florida 32301

Suzanne Marshall, Educational Facilities Technical Assistance — (850) 487-1130

Georgia

State Department of Education — http://www.doe.k12.ga.us
2066 Twin Towers East
205 Butler Street, SE
Atlanta, GA 30334

Jerry Rochelle, Facilities Service — (404) 656-2454
Mike Walker, School Improvement & Training — (404) 657-8763

Hawaii

State Department of Education — http://www.k12.hi.us
P.O. Box 2360
Honolulu, Hawaii 96804

Paul LeMahieu, Superintendent — (808) 586-3310
Lester Chuck, Facilities & Support Services School — (808) 733-4865
Art Kaneshiro, School Improvement/Community Leadership — (808) 586-3124

Idaho

State Department of Education — http://www.state.id.us
Len B. Jordan Office Building
P.O. Box 83720
Boise, Idaho 83720

Bob West, Chief Deputy Superintendent — (208) 332-6810

Illinois

State Board of Education — http://www.isbe.state.il.us
100 North First Street
Springfield, Illinois 62777

Lynne Haeffele, Deputy Superintendent — (217) 782-0354
Nona Myers, School Construction & Facilities Services — (217) 785-8779
Gary Ey, School Financial Services — (217) 782-5256

Indiana
State Department of Education http://www.doe.state.in.us
Room 229, State House
200 W. Washington Street
Indianapolis, Indiana 46204-2798

Phyllis Land Usher, Assistant Superintendent for School Improvement Performance	(317) 232-9101
Patty Bond, School Finance & Educational Information	(317) 232-0840

Iowa
State Department of Education http://www.state.ia.us
Grimes State Office Building
East 14th & Grand Streets
Des Moines, Iowa 50319-0146

Robert Willis, Bureau of Administration & School Improvement	(515) 281-3170
Judy Jeffrey, Division Administrator of Early Childhood, Elementary, & Secondary Education	(515) 281-3333
Leland Tack, Financial & Information Services	(515) 281-5293

Kansas
State Department of Education http://www.ksbe.state.ks.us
120 South East Tenth Avenue
Topeka, Kansas 66612-1182

Sharon Freden, Assistant Commissioner	(785) 296-2303
Veryl Peter, School Finance	(785) 296-2276

Kentucky http://www.kde.state.ky.us
State Department of Education
Capitol Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Gene Wilhoit, Deputy Commissioner	(502) 564-3301
Mark Ryles, Facilities Management	(502) 564-4326
Kyna Koch, School Finance	(502) 564-3848

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Louisiana
State Department of Education — http://www.doe.state.la.us
P.O. Box 94064
626 North 4th Street
Baton Rouge, Louisiana 70804-9064

Carole Butler-Wallin, Deputy Superintendent — (225) 342-3625
Marlyn Langley, Management & Finance — (225) 342-3617

Maine
Department of Education — http://www.state.me.us
23 State House Station
Augusta, Maine 04333-0023

Judith Lucarelli, Deputy Commissioner — (207) 287-5112
Lesley Clark, Finance — (207) 287-4485

Maryland
State Department of Education — http://sailor.lib.md.us/msde
200 West Baltimore Street
Baltimore, Maryland 21201

A. Skipp Sanders, Deputy State Superintendent — (410) 767-0464
Brian Rice, Program & Finance Coordination — (410) 767-0528
Allen Abend, School Facilities — (410) 767-0096

Massachusetts
Massachusetts Department of Education — http://www.doe.mass.edu
350 Main Street
Malden, Massachusetts 02148

Jeffrey Wulfson, Chief Financial Officer — (781) 338-6500

Michigan
State Department of Education — http://www.mde.state.mi.us
P.O. Box 30008
Lansing, Michigan 48909

Michael Williamson, Deputy Commissioner — (517) 373-3901
Elaine Madigan Mills, State Aid & School Finance — (517) 373-3350

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Minnesota

Department of Children, Families, & Learning
1500 Highway 36 West
Roseville, Minnesota 55113-4266

http://cfl.state.mn.us

Barbara Yates, Deputy Commissioner	(651) 582-8207
Thomas Melcher, Program Finance	(651) 582-8828

Mississippi

State Department of Education
P.O. Box 771
359 North West Street
Jackson, Mississippi 39205-0771

http://mdk12.state.ms.us

R.D. Harris, Deputy Superintendent	(601) 359-3514
Leslie Shivers, Financial Accountability	(601) 359-3924

Missouri

Department of Elementary & Secondary Education
P.O. Box 480
205 Jefferson Street
Jefferson, Missouri 65102-0480

http://www.dese.state.mo.us

Kent King, Deputy Commissioner	(573) 751-3503
Dale Carlson, School Finance	(573) 751-0357
Catl Sitze, School Improvement Program	(573) 751-4426

Montana

Office of Public Instruction
1227 11th Avenue
P.O. Box 20251
Helena, Montana 59620-2501

http://www.state.mt.us

Bill Cooper, Deputy Superintendent	(406) 444-5643
Kathy Fabiano, Operations	(406) 471-2562

Nebraska
Department of Education
301 Centennial Mall South
P.O. Box 94987
Lincoln, Nebraska 68509-4987

http://www.edneb.org

Polly Feis, Deputy Commissioner (402) 471-5025
Russ Inbody, School Finance & Organization Services (402) 471-4320

Nevada
State Department of Education
700 East Fifth Street
Carson City, Nevada 89701-5096

http://www.nsn.k12.nv.us

Keith Rheault, Deputy Superintendent (775) 687-9224
Rick Larson, Finance (775) 687-9169

New Hampshire
State Department of Education
101 Pleasant Street
State Office Park South
Concord, New Hampshire 03301

http://www.state.nh.us/doe

Nicholas Donohue, Deputy Commissioner (603) 271-3142

New Jersey
State Department of Education
River View Executive Plaza, Bldg. 100
P.O. Box 500
Trenton, New Jersey 08625-0500

http://www.state.nj.us

Douglas Groff, Assistant Commissioner of Executive Services (609) 292-4452
Michael Azzara, Finance (609) 292-4421

New Mexico
State Department of Education
Education Building
300 Don Gaspar
Santa Fe, New Mexico 87501-2786

http://www.state.nm.us

Susanna Murphy, Deputy Superintendent (505) 827-3876
Kathleen Forrer, Finance (505) 827-6330

New York
State Department of Education — http://www.nysed.gov
Education Building, Room 111
89 Washington Avenue
Albany, New York 12234

Thomas Sheldon, Associate Commissioner for Planning & Policy Development — (518) 474-5836
Carl Thurman, Facilities Planning — (518) 474-3906

North Carolina
State Department of Public Education — http://www.dpi.state.nc.us
Education Building
301 North Wilmington Street
Raleigh, North Carolina 27601-2825

Brad Sneeden, Deputy State Superintendent — (919) 715-1292
H. Hank Hurd, Associate Superintendent of Financial Services — (919) 715-1371

North Dakota
State Department of Public Instruction — http://www.dpi.state.nd.us
State Capitol, 11th Floor
600 East Boulevard Avenue
Bismark, North Dakota 58505-0440

Joseph Linnertz, Technology & Support Services — (701) 328-2278
Tom Decker, School Finance — (701) 328-2267

Ohio
State Department of Education — http://www.ode.state.oh.us
65 South Front Street
Columbus, Ohio 43215-4183

Roger Nehls, Deputy Superintendent of Public Instruction — (614) 466-3175
David Varda, Associate Superintendent of School Finance & Accountability — (614) 466-3175

Oklahoma

State Department of Education — http://sde.state.ok.us
Hodge Education Building
2500 North Lincoln Boulevard
Oklahoma City, Oklahoma 73105-4599

Sharon Lease, Deputy Superintendent	(405) 521-4891
Kent Tippin, Fiscal Services	(405) 521-3349

Oregon

State Department of Education — http://www.state.or.us
255 Capitol Street, NE
Salem, Oregon 97310-0203

Joanne Flint, Associate Superintendent of Curriculum & Instruction	(503) 378-8004
Clark Brody, Deputy Superintendent of State Board Relations	(503) 378-3573
Joyce Benjamin, Associate Superintendent of Federal Programs Liaison	(503) 378-3573
Chris Durham, Director of Management Services	(503) 378-3310

Pennsylvania

State Department of Education — http://www.cas.psu.edu
333 Market Street
Harrisburg, Pennsylvania 17126-0333

John Godlewski, Budget & Fiscal Management	(717) 787-7808
Thomas Carey, Deputy Secretary of Elementary & Secondary Education	(717) 787-2127

Rhode Island

Department of Elementary & Secondary Education — http://www.ridoe.net
255 Westminster Street
Providence, Rhode Island 02903-3400

Susan Lusi, Assistant Commissioner	(401) 222-4600
Adelita Orefice, Finance & Accounting	(401) 222-4600

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South Carolina
State Department of Education — http://www.state.sc.us
1429 Senate Street
Columbia, South Carolina 29201

Robert Hill, Chief of Staff	(803) 734-3156
Dan Chandler, Finance	(803) 734-8504
John Kent, School Facilities	(803) 734-8824

South Dakota
Department of Education & Cultural Affairs — http://www.state.sd.us/deca
700 Governors Drive
Pierre, South Dakota 57501-2291

Karon Schaack, Deputy Secretary	(605) 773-5669
Todd Vik, Finance & Management	(605) 773-3248

Tennessee
Department of Education — http://www.state.tn.us
Sixth Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, Tennessee 37243-0375

Jeff Roberts, Deputy Commissioner	(615) 741-0334
Jim Jones, Local School Finance	(615) 532-8023

Texas
Texas Education Agency — http://www.tea.texas.gov
William B. Travis Building
1701 North Congress Avenue
Austin, Texas 78701-1494

Joe Wisnoski, School Finance & Fiscal Analysis	(512) 463-8994

Utah
State Office of Education — http://www.usoe.k12.ut.us
250 East 500 South
Salt Lake City, Utah 84111

Jerry Peterson, Associate Superintendent of Instructional Services	(801) 538-7515
Larry Newton, School Finance & Statistics	(801) 538-7668

Vermont
State Department of Education
120 State Street
Montpelier, Vermont 05620-2501
http://www.state.vt.us/educ

Marjorie Petit, Acting Commissioner (802) 828-3135
William Talbott, Financial Management (802) 828-3155

Virginia
State Department of Education
P.O. Box 2120, James Monroe Building
Fourteenth & Franklin Streets
Richmond, Virginia 23218-2120
http://www.pen.k12.va.us

Kenneth Magill, Deputy Superintendent (804) 225-2073
Marie Williams, Accounting & Finance (804) 225-2040

Washington
Superintendent of Public Instruction
Old Capitol Building
P.O. Box 47200
Olympia, Washington 98504-7200
http://www.k12.wa.edu

Cheryl Mayo, Assistant Superintendent for
Learning & Teaching (360) 753-0793
Mike Currie, Facilities & Organization (360) 753-1880
Mike Bigelow, Associate Superintendnet for
Budget & School Business Services (360) 753-1718

West Virginia
State Department of Education
1900 Kanawha Boulevard East
Building 6, Room B-358
Charleston, West Virginia 25305-0330
http://wve.state.wv.us

William Luff, Jr., Associate Superintendent of Research,
Technology, & Professional Services (304) 558-3762
Joe Panetta, School Finance (304) 558-6300

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Wisconsin
State Department of Public Instruction — http://www.dpi.state.wi.us
125 South Webster Street
P.O. Box 7841
Madison, Wisconsin 53707-7841

Steven Dold, Deputy State Superintendent	(608) 266-1771
David Carlson, School Financial Services	(608) 266-6968

Wyoming
State Department of Education — http://www.k12.wy.us
Hathaway Building, 2nd Floor
2300 Capitol Avenue
Cheyenne, Wyoming 82002-0050

Joe Simpson, Deputy Superintendent	(307) 777-7674
John Ehlers, Finance & Personnel	(307) 777-6274

American Samoa
Department of Education
Pago Pago, American Samoa 96799

Lui Tuitele, Deputy Director	(684) 633-4255
Tupuivao Vaifanua, Finance	(684) 633-4255

Guam
Department of Education — http://www.guam.doe.edu.gu
P.O. Box DE
Agana, Guam 69632

Aline Yamashita, Deputy Director	(671) 475-0460
Billy Cruz, Facilities and Maintenance	(671) 475-0611
John DeNorcey, Financial Affairs	(671) 475-0420

Northern Mariana Islands
Public School System — http://www.saipan.com/gov
P.O. Box 501370 CK
Saipan, MP 96950

Louise Concepcion, Deputy Commissioner for Administration	(670) 664-3762
William Matosn, Fiscal and Budget Officer	(670) 664-3790

Puerto Rico
Department of Education
P.O. Box 190759
San Juan, Puerto Rico 00919-0759

Isidra Albino, Undersecretary	(787) 754-6164
Rafael Medina, Finance Director	(787) 753-8531

Virgin Islands
Department of Education
44-46 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Mario Golden, Sr., Assistant Commissioner	(809) 773-1095
Francia Brin, Fiscal & Administrative Services	(340) 774-0100

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Empowerment Zones & Enterprise Communities

To be eligible for the Qualified Zone Academy Bond program, *either* a minimum of 35 percent of the school's students must be eligible for free or reduced- price lunch, *or* the school must be located in an Empowerment Zone or an Enterprise Community.

The following is a list of cities, counties, or other areas that contain Empowerment Zones or Enterprise Communities.* Please note that the entire region of the listed city or county may not be an Empowerment Zone or Enterprise Community, and that cities and counties are periodically added to this list. Contact your state educational agency for further information.

State	Empowerment Zone	Enterprise Community
Alabama		Birmingham Chambers County Green County Sumter County
Alaska		Juneau Metlakatla Indian Community**
Arizona		Phoenix Window Rock Apache County Coconino County Cochise County Douglas County Navajo County Nogales County San Luis/Gadsten Santa Cruz County Yuma County

* Source is the Empowerment Zone/Enterprise Community Office.

State	Empowerment Zone	Enterprise Community
Arkansas		Cross County East Central County Mississippi County Pulaski County Lee County Monroe County St. Francis County
California	Los Angeles Oakland Santa Ana Riverside County	Bayview Fresno County Hunter's Point** Huntington Park Imperial County Los Angeles San Diego San Francisco Santa Cruz County Watsonville
Connecticut	New Haven	Bridgeport New Haven
Delaware		Wilmington
District of Columbia		Washington
Florida		Dade County Collier County Hendry County Immokalee Jackson County Miami Tampa

State	Empowerment Zone	Enterprise Community
Georgia	Atlanta Cordele Crisp County Dooly County	Albany Burke County Crisp County Dooly County Hancock County Jefferson County McDuffie County Taliaferro County Warren County
Hawaii		Kaunakakai Moloka'I Island, Maui County
Illinois	Chicago East St. Louis Ullin Alexander County Jackson County Pulaski County	East St. Louis Springfield
Indiana		Austin Indianapolis Scott County
Iowa		Des Moines
Kansas		Leoti Wichita County
Kentucky	Clinton County Jackson County Wayne County	Bowling Green Louisville Pine Knot Stearns Whitley McCreary County Warren County

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State	Empowerment Zone	Enterprise Community
Louisiana		Catahoula Parish Concordia Parish Franklin Parish Madison Parish Morehouse Parish New Orleans Ouachita Parish Tensas Parish
Maine		Lewiston Androscoggin County
Maryland	Baltimore	
Massachusetts		Lowell Springfield
Michigan	Detroit	Flint Five Cap** Harrison Muskegon Clare County Lake County
Mississippi	Mid Delta**	Bolivar County Holmes County Humphreys County Jackson Leflore County Panola County Quitman County Sunflower County Tallahatchie County Washington County

** Not a city or a county

State	Empowerment Zone	Enterprise Community
Missouri	Kansas City	East Prairie Mississippi County St. Louis
Minnesota	Minneapolis	
Montana		Fort Peck Indian Reservation** Roosevelt County Valley County
Nebraska		Omaha
Nevada		Clark County Las Vegas
New Hampshire		Manchester
New Jersey	Camdem	Newark
New Mexico		Albuquerque Deming Luna County Mora County Rio Arriba County San Juan County Taos County
New York	Bronx** Harlem**	Albany Buffalo Kingston Newburgh Rochester Schenectady Troy

State	Empowerment Zone	Enterprise Community
North Carolina		Charlotte Edgecombe County Halifax County Robeson County Wilson County
North Dakota	Lake Agassiz Griggs County Steele County	
Ohio	Cincinnatti Cleveland Columbus Huntington Ironton	Akron Columbus Greater Portsmouth Scioto County
Oklahoma		Ada Oklahoma City Choctaw County Coal County Johnston County McCurtain County Pontotoc County
Oregon		Portland Josephine County Southern Josephine County
Pennsylvania	Philadelphia	Clinton County Fayette County Harrisburg Pittsburgh Uniontown
Rhode Island		Providence

State	Empowerment Zone	Enterprise Community
South Carolina	Columbia Sumter	Allendale County Charleston Florence County Hallandale Williamsburg County
South Dakota	Pine Ridge Indian Reservation**	Beadle County Spink County
Tennessee		Claiborne County Fayette County Grainger County Hancock County Hawkins County Haywood County McCreary County Memphis Nashville Scott County Union County
Texas	El Paso Houston Cameron County Hidalgo County Starr County Willacy County	Dallas El Paso La Salle County Maverick County San Antonio Uvalde County Waco Dimmit County Zavala County
Utah		Ogden San Juan County
Vermont		Burlington
Virginia	Norfolk Portsmouth	Accomack County Norfolk Northampton County

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State	Empowerment Zone	Enterprise Community
Washington		Ferry County
		Lower Yakima County
		Okanogan County
		Pend Oreille County
		Seattle
		Stevens County
		Tacoma
West Virginia		Braxton County
		Charleston
		Clay County
		Fayette County
		Huntington
		Kanawha County
		McDowell County
		Nicholas County
		Roane County
		West Central Appalachia**
Wisconsin		Forest
		Keshena
		Menominee County
		Milwaukee
		Vilas County

Frequently Asked Questions

1. **What is the benefit of the Qualified Zone Academy Bond program?**

   The benefit of the QZAB program is that it helps school districts save money and make their dollars go further. School districts usually issue bonds in order to finance renovation and repair projects to schools within the district. Interest owed on these bonds can equal up to 50 percent of the costs of the entire project. As a result, districts often find it difficult to undertake school renovation and repair.

   In order to facilitate these projects, Congress created the QZAB program, which provides the bondholder with a federal tax credit in lieu of a cash interest payment. Because the federal government provides the interest payment, the district then is typically only responsible for repaying the value of the bond. Through this program, the burden on school districts of financing school renovation is eased.

2. **How do local governments obtain the ability to issue these bonds?**

   Local educational agencies apply to the state for authorization. Each state has its own application. The processes are usually fairly simple. A list of contacts for your state can be found in this booklet.

3. **Is there a time limit for issuing QZABs?**

   QZAB funds have been available to local school districts since January 1998. QZABs based on the authority allocated for 1998 and 1999 must be issued by the end of the third following year. QZABs issued on the basis of authority allocated for 2000 and 2001 must be issued by the end of the second following year.

The following chart identifies deadlines for each year's allocation.

Year Allocated	QZABs Must be Issued By December 31,
1998	2001
1999	2002
2000	2002
2001	2003

4. What are the criteria for eligibility?

Public schools must meet one of two criteria to be eligible for QZAB funds:

1. Either located in an Empowerment Zone or Enterprise Community. A list of these areas can be found in this booklet.
2. Or, have at least 35 percent of the school's students eligible for free or reduced-price lunch under the federal lunch program. This criteria is the one that schools are most likely to meet. Under the National School Lunch Act, free meals are provided for students from families whose income is below 130 percent of the Federal poverty level. Reduced-price lunches are provided if the family's income is between 130 percent and 180 percent of the federal poverty level.

These eligibility criteria are applied on a school-by-school basis, rather than a system-wide basis.

5. What are the requirements of the program?

Requirements of the program include:

- An academic program that QZAB funds will benefit
- A partnership between the school and private entities

Some states have set additional parameters for the QZAB program. Contact your state educational agency for these details.

6. What are the requirements for the academic program?

Programs established with QZABs must have the goal of enhancing the academic curriculum, increasing graduation and employment rates, or better preparing students for college and the workforce. The school should work with its partner to design an academic program that will best meet these goals.

7. **What is required of the public-private partnership?**

Each school must enter into a partnership with a private entity or entities. The partner must contribute at least 10 percent of the net present value of the amount of money borrowed. Contributions can include:

- cash donation
- equipment
- technical assistance in implementing the academic program
- training for teachers
- internships or field trips for students in the program
- services for students, such as mentoring programs
- other property or services specified by the local school board

In addition to the private contribution, the school and business partners must work together to plan and implement the academic program associated with the QZAB. In this manner, the school and the business work together to improve the quality of education in the school, as well as the opportunities available to students.

8. **What can QZABs be used for?**

QZABs can be used for renovation and modernization to an existing school structure. QZABs cannot be used for new construction. The funds borrowed must be used for one or more of the following:

- rehabilitating or repairing the public school facility in which the academy is established;
- providing equipment for use at the academy;
- developing course materials for education to be provided at the academy; or
- training teachers and other school personnel in the academy.

9. Is there a limit to the amount of money that can be borrowed through a QZAB?

Yes. A total of $400 million in QZABs has been allocated to States in each of the following years: 1998, 1999, and 2000. An additional $400 million will be allocated in 2001. Each state has a specified allotment, which is based on the number of individuals with incomes below the poverty level. A list of state allocations can be found in this booklet. Some states may set limits on the amounts of bonding authority that can be allocated to individual districts.

10. Who can purchase these bonds?

A local government's bond issue can be purchased by banks (within the meaning of Internal Revenue Code section 581), insurance companies (to which subchapter L of the Internal Revenue Code applies), and corporations actively engaged in the business of lending money. This purchaser of the bond is referred to as the bondholder.

11. What is the new source of capital?

Interest on the QZAB will be paid by the federal government through a tax credit to the bondholder. Thus, the local governments are permitted to borrow money from financial institutions at a zero interest rate. The maximum maturity of QZABs is set each month pursuant to a statutory formula.

12. What are the other conditions associated with QZABs?

A local government can issue a QZAB if:

- 95 percent or more of the proceeds of the issue must be used for a qualified purpose with respect to an eligible zone academy;
- the bond is issued by a state or local government within the jurisdiction of which the zone academy is located;
- the issuer must designate the bond for purposes of this provision;
- the issuer certifies that it has written assurances that the private business contribution requirement will be met with respect to the school, and certifies that it has the written approval of the local school board for the issuance; and
- the term of each bond in the issue does not exceed the time that the Secretary of the U.S. Treasury estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond (rounded up to a whole year).

A local government does not have to have a formal bond issue to participate in the program. A simple loan from a local financial institution can qualify as long as it meets the requirements described above.

Qualified zone academy bonds also must be issued in accordance with state or local borrowing requirements.

13. How will the Internal Revenue Service administer the eligibility requirements?

IRS regulations state that the issuer will make the determination of whether the school is a qualified zone academy. That determination will not be challenged by the IRS and may be relied on by the purchasers of the qualified bonds if there was a reasonable basis for the determinations.

The one exemption is as follows: the law requires that 95 percent of the proceeds from the borrowing must be used for a qualified purpose. The regulations provide that the definition of qualified purposes contained in the statute is to be broadly interpreted. If changes in circumstances result in the issuer not being able to actually spend 95 percent of the bond proceeds for a qualified purpose, the issuer must utilize remedial actions (such as redeeming a portion of the issue) to preserve the qualification of the bond. These remedial actions are similar to those provided in tax-exempt bond regulations.

14. How is the interest subsidy provided to the bondholder?

Rather than being paid interest by the bond issuer, purchasers of QZABs sold before July 1, 1999 will receive an annual federal income tax credit equal to the principal amount of the bond times 110 percent of the applicable federal long-term rate (AFR) for the month in which the bond was issued.

For QZABs sold on or after July 1, 1999, the credit rate is established on the date of sale and is equal to the rate published for that date on the following Treasury Department Web site: http://www.publicdebt.treas.gov/spe/speqzab.htm. Maximum maturities are also published on that Web site.

The issuer may issue the bond at premium or discount or provide for additional interest payments to take into account the fact that borrowers have different credit ratings.

15. What is the tax treatment of the purchaser of qualified zone academy bonds?

The purchaser of a QZAB is eligible for an annual tax credit in an amount described above. That credit effectively makes the bond purchaser whole, as though it purchased a taxable bond. The tax credit can offset both regular and Alternative Minimum Tax federal income tax liabilities. The temporary regulations treat that credit as if it were taxable interest for all purposes of the tax law. In addition, any premium or discount on the bond will be treated as premium or discount on a taxable obligation.

16. What can a holder do if it has insufficient Federal tax liability to fully utilize the credit?

QZABs are freely transferable and, therefore, taxpayers who do not have sufficient federal income tax liability to fully utilize the credit may transfer the bond to other taxpayers who can fully utilize the credit. The credit is allowed to the taxpayer who holds the bond on the credit allowance date regardless of how recently the taxpayer acquired the bond. This is similar to taxable bonds with interest payments where the interest payment is made to the holder on the interest payment date.

Additional Information

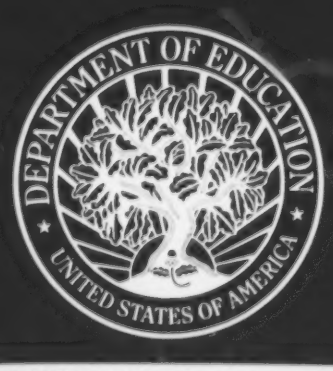
For additional information on school construction, renovations, and repairs, please visit the following Web sites:

U.S. Department of Education
http://www.ed.gov

National Clearinghouse for Educational Facilities
http://www.edfacilities.org/

Created in 1997, the National Clearinghouse for Educational Facilities (NCEF) is an information resource for people who plan, design, build, operate and maintain K-12 schools.

Special thanks to Aarti Kumar for making this project possible.



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